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Monday, July 16, 1917

It is not difficult to find an explanation for the sharp break in the prices of industrial stocks. To build up stronger reserves, the banks called in millions of dollars in demand loans, and the rate rose to as high as 10 per cent. A 10 per cent rate for call money makes the carrying of stocks on margin a pretty expensive proposition, and not only discourages buying, but encourages selling of stocks held for long account and short selling for a fall. When there is a scarcity of money, even at high rates, selling is not only encouraged, but in numerous instances the liquidation of long accounts is forced. That is what happened this time. Everything considered, it is not so surprising that the market suffered a reaction as that it held up as well as it did.

Speculation recently has been confined for the most part to the industrial and miscellaneous stocks, such comparatively small business as has been carried on in the railroad group being largely of an investment character. Moreover, the banks favor loans secured by railroad collateral as against those secured by a mixture of industrial and railroad stocks, or those secured wholly by industrial collateral, and, when the pinch came, relatively few loans of the kind first named were called. Therefore, the railroad section of the stock list was but little affected by the money market flurry; indeed, prices were not only well maintained, but in numerous instances there were gains.

There was more "outside" trading during the day than there has been for some time past, and it played an important part in sustaining values, because much of it was on the constructive side of the market. Curiously enough, until well into the afternoon, when there was some profit taking by professional operators, most of the buying orders came over the wires of houses with Western connections. The head of one such house went so far as to describe the market as "a tug-of-war between the East and the West." The West is just as prosperous as the rest of the country, and apparently it lays less stress upon Washington news, and has more confidence in the future than the East. It has the habit of optimism and seldom, if ever, does it sell securities for a fall. The Western speculator often holds on to his stocks in the face of a declining market, piling margin on margin, long after his Eastern prototype has run for cover. Just now he figures more importantly as a market factor than is usually the case, because the speculative fever must have an outlet, and, barred from trading in grain, he has been confining his operations to the stock market.

There are many factors making for higher money, and particularly for higher money for Stock Exchange uses. In addition to the enormous absorption of funds by the government, which is the controlling influence, the seasonal demands for agricultural purposes are beginning to make themselves felt. On top of this is the fact that great quantities of goods are tied up by the transportation shortage, to which must be added, temporarily at least, further important quantities tied up by the export embargo. To finance these goods pending delivery requires a vast amount of credit, and much of the burden falls on the institutions in central reserve cities.

Customs in banking, as in other fields, change slowly. The remark may be true, but the fact is important, because it accounts in no small degree for the credit pinch. The Federal Reserve system affords, through the rediscount privilege, a vast reservoir of credit. And yet, apparently for no better reason than that it is used to be unfashionable for a bank to borrow, the privilege is availed of to only a very limited extent. When the system was put into operation it was said by some enthusiasts that the money problem had been solved forever. That was going pretty far, but there was more than a little to back up the belief. At any rate, there is no good reason why the banks should fail to take advantage of the benefits the system confers upon them to prevent, as far as possible, the unsettling which always attends money stringencies. Indeed, as quasi-public institutions, it is their duty to do so. The system was designed to insure, among other things, an adequate supply of credit for all legitimate business, and to the extent that the banks fail to utilize the rediscount privilege to that end, when such action is required, they are certainly open to criticism. Fortunately, the more progressive institutions have not been slow to do so,

but, unfortunately, the majority have not followed their lead. Probably they will in time; possibly the time is not far distant. It is a matter of education, which is usually a slow process, but the process may be hastened by necessity in this case.

How utilization of the rediscount privilege may avert a serious money disturbance was well demonstrated during the day. There was first a demand for call money, with little or none offered. The rate went up a point or two, and some funds were bought out, but not much. Bidding for money continued, and the rate was quickly run up to 10 per cent. Thereafter, as the most pressing demands were satisfied, the rate dropped sharply, closing at 4 per cent. Instead of this, we might have seen 15 or 20 per cent money had it not been for the fact that two or three of the leading banks, realizing the possibilities in the situation, rediscounted heavily. This had an immediate effect upon rates, because it gave some assurance that the situation would not be allowed to become acute.

One reason why it was necessary to call in loans is to be found in the dynamic quality of government deposits, the proceeds of Liberty bonds. Under a special ruling, reserve requirements were waived on such deposits. But, in spite of the obvious fact that the government was likely to withdraw funds in enormous quantities at any time, some institutions loaned nearly all these funds, which caused extension of stock market and other operations on a rather unstable basis. Then, when the government all at once called on them for the money, they performed had to contract loans on a large scale. It is to be hoped that those institutions which followed such a course will profit by the experience they have just undergone—fortunately, without serious results for any one concerned.

It is not at all impossible that Stock Exchange money will gradually work to a permanently higher level. The reason is that prime commercial paper is, perhaps, the best investment a bank can make, and it now has, as far as a Federal Reserve member is concerned, the much desired quality of liquidity. A bank can convert commercial paper quite as quickly as it can a demand loan, simply by taking it to the Federal Reserve bank in its district and rediscounting it. Therefore, the tendency of call money rates should be to seek the level of commercial paper rates. Normally, they are substantially lower.

Money and Credit

The sharp reduction in bank reserves brought a quick response in the local money market yesterday when call loans at the Stock Exchange jumped to 10 per cent and ruled at 6 per cent. This compared with a ruling rate of 4 1/2 per cent on Friday.

Time money was considerably firmer, with only a moderate amount of business moving. Bankers restricted their offerings. Loans secured by industrial collateral were quoted at 5 per cent for ninety days, four, five and six months, while loans on a mixture of railway and industrial collateral were 4 1/2 to 4 3/4 per cent.

Ruling rates of money yesterday, compared with a year ago, were as follows:

	Yesterday	Year ago
Call money....	6%	2 3/4%
Time money (mixed collateral):		
60 days....	4 1/2 to 4 3/4%	3 1/2 to 3 3/4%
90 days....	4 1/2 to 4 3/4%	3 1/2 to 4%
4 months....	4 1/2 to 4 3/4%	4%
6 to 6 mos....	4 1/2 to 4 3/4%	3 3/4 to 4%

Commercial Paper.—Trading in commercial paper was less active yesterday. Hesitancy was displayed by banking institutions in making new commitments owing to the general tightening of the money situation. Rates were unchanged at 4 1/2 to 5 per cent.

Official rates of discount of each of the twelve Federal districts are as follows:

	Days	Over 15	Over 30	Over 60
Boston.....	3/2	4	4	4
New York.....	3/2	4	4	4
Philadelphia..	3/2	4	4	4
Cleveland....	3/2	4	4	4 1/2
Richmond....	3/2	4	4	4
Atlanta.....	3/2	4	4	4 1/2
Chicago.....	3/2	4	4	4
St. Louis.....	3/2	4	4	4 1/2
Kansas City..	4	4 1/2	4 1/2	4 1/2
Dallas.....	3/2	4	4	4 1/2
San Francisco.	3/2	4	4	4 1/2

Bank Clearings.—The day's clearings at New York and other cities:

	Exchanges	Balances
New York....	\$391,372,561	\$50,857,912
Baltimore....	6,639,763	692,475
Boston.....	34,802,269	9,514,433
Chicago.....	83,941,678	6,119,632
St. Louis....	25,969,859	5,778,822

Sub-Treasury.—New York banks lost to the Sub-Treasury \$29,093.

Silver.—Bars in London, 41 1/2, up 1/4; New York, 81 1/2, up 1 1/2; Mexican dollars, 63 1/2, up 1/2 cent.

Boston Bank Statement.—The weekly report disclosed a decrease of \$668,000

Money Goes to 10 P. C. as Banks Call In Loans

There was transferred by telegraph to San Francisco \$2,138,540 for the account of Japanese bankers who are shipping that amount of gold to Japan.

Gold Currents.—Unusually heavy withdrawals of gold were made from the Sub-Treasury yesterday. Local bankers arranged for the export of \$3,155,285 to Spain, while \$1,729,450 was withdrawn with shipment to an unknown destination.

London Money Market.—London, July 16.—Money was in increased supply to-day through dividend disbursements. Discount rates were quiet. Money ruled at 4 1/2 per cent. Discount rates: short bills, 4 1/2 per cent; three-month bills, 4 1/2 to 4 3/4 per cent; gold premiums at Lisbon, 85.

The Dollar in Foreign Exchange

Rates moved irregularly in the local foreign exchange market yesterday. Russian rubles were easier at 2 1/2, against a Swiss franc advanced again, touching a new high record for the war period of 4.62. Scandinavian exchange was slightly easier.

Closing rates yesterday, compared with a week ago, are given in the table below. American bankers have suspended all dealings in German and Austrian exchange, so that daily quotations for either marks or kronen are no longer available.

	Yesterday	ago
(Quoted dollars to the pound.)		
Sterling, demand....	\$4.75 1/2	\$4.75 1/2
Sterling, sixty days....	4.71 1/2	4.71 1/2
Sterling, cables....	4.76 1/2	4.76 1/2
Sterling, ninety days....	4.69 1/2	4.69 1/2
(Quoted units to the dollar.)		
Francs, demand....	5.75 1/2	5.74
Francs, cables....	5.74 1/2	5.73
Lire, checks....	7.21 1/2	7.25
Lire, cables....	7.20 1/2	7.21
Swiss, checks....	4.64	4.74
Swiss, cables....	4.62	4.72
(Quoted cents to the unit.)		
Guilivers, checks....	41 1/4	41 1/4
Guilivers, cables....	41 1/4	41 1/4
Rubles, cables....	23.25	23.00
Stockholm, kr., ch'ks....	30.85	30.60
Copenhagen, kr., ch'ks....	28.85	29.25
Pesetas, checks....	23.00	23.15

Below is given the current exchange value of foreign money in dollars and cents, together with the intrinsic gold parity, as calculated by the United States Mint:

	Current	Intrinsic
Pounds, sterling....	\$4.75 1/2	\$4.76 1/2
Francs....	5.75 1/2	5.74
Guilivers....	41 1/4	41 1/4
Rubles....	23.25	23.00
Stockholm, kr....	30.85	30.60
Copenhagen, kr....	28.85	29.25
Pesetas....	23.00	23.15

The above rates express the cost of foreign money in terms of the American dollar. You buy an English pound sterling at, say, \$4.75 1/2. The intrinsic parity is \$4.76 1/2 per pound. Thus, you say either that the dollar is at a premium, which is owing to the fact that in England the demand for dollars with which to settle accounts in this country is greater than the demand in this country for pounds with which to settle accounts in England.

Relevant Facts

Pan-American Petroleum and Transport.—The company announced yesterday that it had secured a new issue of \$7,000,000 first lien marine equipment 6 per cent convertible gold bonds. The bonds mature in installments of \$500,000 every six months over a period of ten months. As security for the bonds the company has pledged a fleet of six new steel tank steamships valued by E. L. Doherty, president of the company, at \$21,000,000. The Pan-American Petroleum and Transport Company controls the Mexican Petroleum Company.

Great Britain's June Trade.—June imports, according to a report issued by the British Board of Trade, decreased \$98,348, and exports showed a falling off of \$2,025,563, compared with the month of June a year ago. Total imports amounted to \$28,068,000, and exports were \$24,568,000. From January 1 to June 30 total imports were \$2,031,215, against \$2,423,119 in the same period last year, and exports totaled \$2,514,738, compared with \$2,418,097, 981 in 1916.

Mark Manufacturing Company, of Chicago.—In order to bring its annual capacity of finished Bessemer and open hearth steel output up to 500,000 tons, the company is enlarging its steel plant at Indiana Harbor, Ind. The plant, with present contemplated additions, will, it is said, represent an outlay of approximately \$14,500,000. To provide for this, the company has planned the issue of a new \$10,000,000 three-year 6 per cent secured notes, dated June 1, 1917, to Chicago and New York bankers.

McCarty Stores Corporation.—Sales for the month of June amounted to \$226,598, an increase of nearly 24 per cent over June, 1916. For the six months ending June 30 total sales were \$3,325,411, a gain of \$527,047, or 19.53 per cent, over the first half of last year.

United Railways of St. Louis.—It was announced yesterday that a special committee consisting of Festus J. Wade, chairman, and H. W. Zeigler and Gilbert H. Walker had been formed to manage the adjustment of the company's capitalization. Security holders have been requested to deposit their holdings with the various committees.

American Malt Corporation.—It is reported that several plans are now being considered by this company for payment of accumulated dividends on the first preferred stock amounting to \$31.13 per cent. This stock is now receiving dividends at the rate of 6 per cent annually, and one of the plans which may be adopted is the payment of extra cash dividends along with the quarterly disbursements of 1 1/2 per cent. In the last year 14,000 shares of the first preferred stock was purchased by the company at the open market at an average price of \$43 a share, all of which is now held in the treasury.

Extra Dividends.—Directors of the Pittsburgh Coal Company have declared a scrip dividend of 33 1/3 per cent on the preferred stock, payable July 25 to stockholders of record July 20. An extra dividend of 1 per cent on the preferred shares, payable August 1 to stockholders of record July 11. The Pittsburgh Oil and Gas Company has declared an initial quarterly dividend of 2 per cent, payable August 15 to stockholders of record July 31.

Springfield Body Corporation.—All the directors of this company have resigned and a new board has been elected, including the following: H. S. Tenney, C. A. Macdonald, E. W. Wagner, Harry Bull and G. H. Woods. A special meeting will be held July 27 for the purpose of voting on a proposal to increase the capital stock.

Money Goes to 10 P. C. as Banks Call In Loans

Withdrawal of Government Deposits Depletes Reserves

Tension in the local money market, caused largely by the withdrawal last week of approximately \$150,000,000 in United States government deposits from local banking institutions, reached a climax yesterday when the interest rate on day-to-day demand loans used by Wall Street to finance its stock market operations jumped to 10 per cent. This was the highest rate since the flurry of last December, when loans on call were made at 15 per cent. It was 4 per cent above the rate touched during the money market stringency in June, incidental to the flotation of the Liberty Loan.

Big Decline in Reserves

The acuteness of the money market was revealed on Saturday, when the weekly bank statement disclosed reserves in excess of legal requirements of only \$36,144,940, whereas in recently preceding weeks the figure has fluctuated between \$75,000,000 and \$100,000,000. Under the old banking system, where banks in central reserve cities had to maintain reserves of 25 per cent, the local institutions would have reported a deficit on Saturday.

Call money opened at 6 per cent in the "money crowd" on the floor of the Stock Exchange yesterday, as it became apparent that the banks were limiting their loan offerings. Subsequently, when some of the largest institutions in the financial district began to call outstanding loans, the rate began to mount, and early in the afternoon the scarcity of lenders to obtain new credit accommodations in place of those called sent the rate to 10 per cent. At that level about \$1,000,000 was placed. In all, about \$35,000,000 was loaned out, of which \$25,000,000 was for new loans. After the demand for new loans had been filled the rate fell off to a close of 4 per cent.

Few Banks Rediscount

One of the large commercial banks was reported to have called between \$8,000,000 and \$10,000,000 of its outstanding call loans yesterday. It developed after the flurry had subsided that a few of the banks went to the Federal Reserve Bank and arranged for the temporary advances against short-term commercial paper, in order to provide them with fresh funds. One estimate placed the total of such advances to member banks of the Federal Reserve Bank at approximately \$50,000,000. The office of a large national bank expressed the opinion late yesterday that the sharp rise in the call rate would attract funds from the interior which would tend to relieve the stringency. This banker, however, did not think it easy money for some time to come, it being his opinion that the call loan rate would probably hold around 5 to 6 per cent for a while. The stiffening of the rate was not unexpected in banking circles, although few bankers looked for a rise to 10 per cent.

To-day an issue of \$200,000,000 of 3 per cent Treasury certificates of indebtedness placed by the government with the banks on July 10 falls due. The certificates are converted into Liberty Loan bonds, so that the actual amount of cash which the government will be called on to disburse will be relatively small. For this reason the completion of the transaction is not expected to help the money market. Bankers who were asked yesterday regarding the possibility of fresh imports of gold from Canada in this emergency, said they had no knowledge of such impending operations. Attention was called to the fact, however, that in May and June, when the Liberty Loan operation caused a firm money market, approximately \$130,000,000 in gold was shipped here from Canada, and served to strengthen the position of the banks, thus assisting in forcing interest rates down.

Twichell Heads Chemical Bank

Herbert K. Twichell, vice-president of the Chemical National Bank, 270 Broadway, was elected president of that institution yesterday to succeed the late Joseph P. R. Martindale. President Twichell started with the bank as a clerk.

Significant Relations

	Now	1916	1915
Stock of money gold in the country..	\$3,088,711,272	\$2,331,494,834	\$1,940,000,000
Loans of all national banks.....	\$8,751,000,000	\$7,606,000,000	\$6,000,000,000
Total reserve (i. e., cash in national bank vaults and on deposit with Federal Reserve banks).....	1,525,000,000	1,205,000,000	1,000,000,000
Ratio of this total reserve to gross deposit liabilities of national banks.	11.7%	10.8%	10.8%
Bills discounted and bought by Federal Reserve Banks.....	\$335,100,000	\$105,098,000	\$157,579,000
Federal Reserve notes in circulation..	532,598,000	157,579,000	\$502,820,000
Total gold reserves.....	1,353,371,000	1,047,411,000	842,421,000
Average price of 15 railroad stocks..	110.16	110.07	119.24
Average price of 12 industrial stocks.	99.39	97.15	89.20
Food cost of living (Annalist index number).....	265.614	264.789	109.961
Production:			
Unfilled U. S. Steel orders, tons.....	11,383,287	11,886,591	9,640,458
Pig iron (daily average), tons.....	109,002	110,238	107,053
Active cotton spindles.....	33,029,169	33,259,899	32,209,374
Wheat crop, bushels.....	639,886,000	1,012,000,000	1,012,000,000
Corn crop, bushels.....	2,593,241,000	3,055,000,000	3,055,000,000
Cotton crop, bales (exc. linters).....	11,356,944	11,068,173	11,068,173
Distribution:			
Net shortage of freight cars.....	105,127	148,627	33,361
Net surplus of freight cars.....	105,127	148,627	33,361
Gross railroad earnings.....	105,127	148,627	33,361
Bank clearings.....	105,127	148,627	33,361
Commercial failures.....	105,127	148,627	33,361

*Gold held by Reserve agents against circulation included in general fund beginning June 23, 1917. For purposes of comparison it is included in the 1916 figures.

Bankers Meet to Plan Liberty Loan Campaign

Governors of 6 Federal Reserve Institutions Confer in New York

Preliminary discussion of questions relating to the offering and distribution of the next installment of the Liberty Loan will take place to-day, when the governors of the six Eastern Federal Reserve banks will meet for a conference at the Federal Reserve Bank of New York. The governors who will be present at the meeting are Alfred L. Aiken, of the Federal Reserve Bank of Boston; Charles J. Rhoads, of the Philadelphia bank; George J. Sney, of the Cleveland bank; and J. B. McDaniel, of the Chicago bank. Pierre Dougal, of the Chicago bank, will act for Benjamin Strong, Jr., governor, who is now in Colorado. Guy Emerson, vice-president of the National Bank of Commerce, and who is handling the Liberty Loan publicity for this district, said yesterday that headquarters would be opened in the Equitable Building before the end of the week.

Russia Places Contract for 500 Locomotives

The Russian government has placed a contract for five hundred large freight engines with the American Locomotive Company and the Baldwin Locomotive Works, equally divided between the two companies and involving an expenditure of approximately \$30,000,000. The locomotives will be of the Decapod, ten-wheel type, five-foot Russian standard gauge, and are to be used on the Russian state railways. Delivery will be distributed over a five-month period, beginning February, 1918, at the rate of one hundred monthly.

These orders for locomotives, following the placing recently of large contracts for freight cars for Russian account, and the buying of equipment for the railway, will enable the country to overcome some of the transportation difficulties which now hinder its development.

In placing orders for equipment the Russian government, it is said, has been working to secure the services of American engineers, who have been making a thorough study of the railway needs of the country. Although greatly in need of more efficient transportation as a war measure, Russia is building up her railway system now with the development of the nation's great natural resources after peace is declared, in view.

Another order for one hundred consolidation freight locomotives, it is reported, has been placed with the Baldwin Locomotive Works by the British government, aggregating a cost of \$4,500,000. These locomotives are to be delivered during the next six months.

Plan Resumption of Canadian Financing In This Market

Reports reached the financial district yesterday that Sir Thomas White, the Finance Minister of Canada, had decided to seek a conference with officials of the Treasury Department at Washington to discuss business relations between the United States and Canada. It is understood that this government advances to the Dominion. Failing that, the question of reopening the New York market to Canadian issues will, it is said, be discussed.

When the United States entered the war negotiations for the flotation of numerous Canadian municipal and corporate issues had either been completed or were under negotiation. Among other operations of this character, it had been planned to cancel \$200,000 Canadian Pacific Railway sterling securities, outstanding in England, and reissue them in this market. That, however, was a triangular transaction, undertaken for the purpose of rectifying sterling exchange, and as such was of less importance to the Dominion than the flotation here of numerous municipal issues which were in prospect when our entrance into the war upset the plans.

If the reports of the pending conference between Sir Thomas and the Treasury Department are true, it is not impossible that negotiations for the sale of Canadian municipal securities here will be reopened as a result. It is, however, considered unlikely that the transfer of Canadian Pacific securities from